Marriott, Edward Frere

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LONDON
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Paternoster House, Charing Cross Road
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INDIAN CURRENCY QUESTION

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BY

EDWARD FRERE MARRIOTT

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THE INDIAN CURRENCY QUESTION

A SIMPLE PROBLEM

THERE is one point in the Indian Currency question on which all seem to agree. It is this, that the subject is extremely difficult and complex. For my own part, I have ever found the question to be fairly simple and the issues clear. Further, I have never failed in personal argument to show to those who are ready to learn that I am justified in this view. In this short pamphlet I attempt to prove to a wider circle the justness of a view which in personal argument I am able to maintain.

The very large majority of those who have attempted to reach the goal of the currency problem have started on the quest in a wrong direction, or rather from a wrong starting-point. The pioneers of the subject all held that silver had depreciated in value, and from this starting-point they travelled, leading along the same road every future seeker of the problem's solution. Whither could such a road lead? Endless

it must be and tortuous, and bewildering to the last degree.

I propose to take my readers along a different road, a road on which I fortunately chanced to start ten years ago, and which led me direct to the heart of the problem. Those who would travel with me must accept the fact that from 1873 to 1893 gold was rising in value, and that, for the same period, silver did not vary in value to any notable extent; and that in 1892 silver and the rupee were at about the same level of value as in 1873.* But not only must they accept this, which is easy enough to do, but they must keep the facts constantly in mind, and must dismiss all theories and currency proposals based on the belief in the depreciation of silver. Many now hold that the appreciation of gold and the stability of silver up to 1893 are established facts, but they forget these facts in pursuing the subject, and are too apt to return to arguments based on the theory that a steady depreciation of silver has continued since 1873.

I fear that some of my readers may be inclined to doubt the value of any contribution to the subject which is as simple as this pamphlet will be found to be, and will refuse to be impressed by arguments which a child could follow. But no deep reasoning is re-

* In the Appendix I advance all-sufficient proof of the ustness of this assertion.

quired to deal with this really simple problem, for all perplexities vanish in the light of the theory of gold appreciation and silver stability, the truth of which this pamphlet, I think, completely establishes. Gold monometallists, blinded by their hostility to bimetallism, have ingeniously distorted the arguments employed by their opponents to prove the appreciation of gold; but for this misdirected zeal in the cause of gold monometallism India would not now have been wandering for five years in the wilderness of empirical currency experiments.

To two words which I shall frequently use I wish to attach their definite economical meaning. These words are "Value" and "Price." By value I mean value in regard to commodities generally; by price I mean value in regard to gold (or silver). Value, then, is general purchasing power; price is the power to purchase gold or silver as the case may be.

India for some years encountered a difficulty in meeting her obligations; the difficulty was never great, for she met her obligations with really remarkable ease; it would be more true to say that India has been labouring under the dread of being unable to satisfy her creditors.

To what were her difficulties due? The chief cause of her financial difficulties, and the one which has dwarfed all others, is the rise in the value of gold—the rise, that is, in the value

of her measure of indebtedness. From 1873 onwards all gold debtors had alike been bearing continually increasing burdens. Gold debtors, whether discharging their debts through gold or silver, have been suffering each to an equal extent, but it was only those who discharged debts through silver who were in a position to see the increase of the weight of the burden which they bore. The increase of the burden in the case of India was marked by the fall in the price of the rupee; but the fall in the price of the rupee was no more the cause of the increasing burden than the fall in the price of cotton in India or of wool in Australia was the cause of the increase in the burden of those gold-debtor countries; yet on this fall in the price of the rupee have all eyes been fixed, as if it, and it alone, were the disease, and to cope with this imaginary disease has been the aim of recent legislation.

Now I fully allow that the burden was a heavy one; indeed, had gold continued rising in value, gold debtors must in time have been compelled to repudiate a portion of their debts, and they would have been quite justified in doing so. But the burden in India was not due to a fall in the value of the rupee; and this is a point to bear clearly in mind.

The difficulty, then, which India had to face in 1893, in common with all gold debtors in the world, was the rise in the value of the measure

of her indebtedness. But this real difficulty was obscured by the all too evident fact of the fall of the rupee in price; this fall was regarded as the real source of difficulty, and this phantom trouble led minds to ignore the true issues.

There are those who would argue that as far as India is concerned it mattered little whether gold had risen or silver fallen in value. Such an argument is untenable. As far as India is concerned—as far, that is, as her power of meeting her debts is concerned—the value of her currency is of no importance whatever. India discharges her debt by the export of surplus produce. She has no surplus produce of silver; all the silver in the country has been imported by those who needed it, either for currency, hoarding, or manufactures, and it is only by the exports of surplus produce that India can meet her debts. If it had been silver which had fallen in value, and gold which had remained stable, India would have had no added burden to meet. The debtor's measure of indebtedness is, in this connection, of no account; it is clearly the value of the creditor's measure of indebtedness which alone affects the burden of debt.

Again, there are those who argue that as far as the Government of India is concerned it is of no consequence whether gold has risen or silver fallen in value. As regards the narrow

question of the balances of Government ledgers, the argument can pass; but it is impossible satisfactorily to treat this great, if simple, question by peering through the narrow channel bounded by Government ledgers. Those who think otherwise need read no further.

Nothing in this question is to my mind more striking than the extraordinary confusion which a very small deviation from the facts can lead to. It may have been well enough for the Government of India to believe that as far as its balances were concerned it mattered little whether gold had risen or silver fallen; but it could not fail to lead to some confusion of thought for the Government to declare that:—

"The immediate cause of our financial difficulties, and the cause which, by comparison and for the time being, dwarfs all others, is the fall in the gold value of silver," whereas it was in truth the rise in the silver value of gold, or rather in the general value of gold, which caused financial difficulties.

And the Herschell Commission, which sat to consider the question in all its bearings, was undoubtedly wrong to accept the depreciation of silver as a fact, and to argue from such a premiss. How could one expect the Commission to arrive at sound conclusions, when two of its members were careful to write (p. 42 of the Report) that "whether gold had become more valuable in itself, or silver less

valuable in itself, are questions of which we have taken no notice, as we do not think that they fall within the scope of the reference to us"?

It was this very unscientific treatment of the question by the Herschell Commission which stopped the clock of currency reform, and which has helped more than aught else to leave the subject in obscurity. A little more care, a fuller and sounder treatment, would have cleared away for all time the mists which surround the question.

The Herschell Commission, tacitly assuming that the fall in the value of the rupee existed, recommended the adoption of the legislation proposed by the Government of India—legislation which was designed to contract a currency which had never become redundant, and to buoy up a rupee which had never fallen in value.

It is hard to conceive how mischievous to the controversy the false theory of the depreciation of silver has been. This parent error has given birth to many children; but the most misleading of the whole brood is the one which has induced a belief in the worthlessness of silver as a standard of value, and has led India to agitate for its dethronement.

Mr. Dunning Macleod's latest pamphlet on the Indian currency is rendered futile by his adherence to this monstrous superstition. He writes of India's adoption of a silver standard

as a matter of regret, and her final refusal of gold as a calamity. When will the Government of India learn, when will economists generally learn, that, until legislation was directed against silver, India possessed the most perfect standard of value in the world, and a medium of exchange exactly suited to her requirements? One writer only on these subjects has, as far as I know, fully recognized this, and I may be permitted to quote his wise words.* Mr. Lloyd, in *The Statist* of the 6th of August last, in considering the question as to who gains and who loses by a fall in exchange, wrote:—"The stimulus, then, to the Indian export trade and to Indian production was given by the steadiness of the value of silver, at a time when gold was rising so much in purchasing power. In other words, India benefited from the excellence of her own currency system."

With the more accurate knowledge we now possess of the relative levels of gold and silver in the currency kingdom, let us go back to the year 1893, and consider the currency position then.

For many years India had been urging the adoption of a gold standard; the general policy which in 1893 she was so anxious to pursue was no new one, it had been put forward, discussed, and rejected as impracticable time

* I should add that Mr. Webb, in the article referred to on p. 9, has also recognized, and has emphatically insisted on, this economical truth.

and again.* Nearly every year since 1876, every year, that is, since gold had begun to rise notably in value, the Government of India, with its eyes fixed on the falling rupee, had been prophesying financial disaster. When the rupee stood at 1*s.* 8*d.*, it declared that any further fall must lead to bankruptcy. In 1892, although the rupee had been falling steadily in price for many years, and although the country, without serious difficulty, had continued to meet its engagements, the Government of India fell into a panic-stricken condition, and sounded with added vehemence its warnings of disaster, and again urged legislative action. But there was nothing new to fear; a glance backward would have revealed the fact that in each of the three preceding years, when the rupee was falling steadily in price, the revenues of India had shown a surplus over expenditure. How should India, a country not heavily taxed, fall suddenly from affluence into poverty? But across the council chamber of the Indian Government, where the benumbing influence of the silver depreciation phantom had long prevailed, there now crept the shadow of the coming repeal of the Sherman Act, adding yet another terror to the occasion, and in the hysterical legislation of 1893 the Government sought refuge from its fears. Yet this

* *Vide* Mr. M. de P. WEBB's admirable article in *The Bimetallist* for July.

terror was but another phantom of the mind. All had seen the Act itself prove a failure; all knew that, but for a brief period of speculation, the Act had not visibly affected the value of silver. Everyone should have known that a measure which increased the annual demand for silver to an extent of only $\frac{1}{150}$th of the stock in existence was too feeble an attempt at increasing its value to be seriously considered; and the Act itself having proved ineffective, there should have been nothing in its threatened repeal to cause a moment's anxiety to anyone.

What course would a wise and reasoning individual, with the knowledge we now possess, have advised India to pursue? On considering the situation, he would have perceived that gold was indeed rising in value to an extent which, if continued, threatened serious trouble; but he would have seen that in the trouble itself lay the germs of a remedy. He would have argued that the rise in the value of gold would cause the desire for it to increase, a desire which was bound to lead to fresh discoveries, had indeed already led to fresh discoveries, and to the invention of cheaper methods of production. Even if he saw no hope in the greatly increasing supplies of gold, he would have argued that since every gold debtor in the world was suffering equally, the distress must become so acute, that the world, long before India's position had

become unbearable, would have been forced to find a remedy for the disease in some new measure of indebtedness. And one prominent fact he could not have failed to see, that, inasmuch as the trouble lay in the increasing value of gold, India should avoid with anxious care any action which might tend to increase the value of that metal. His advice to India would have been to put a prohibitive import duty on gold, encourage the use of silver, and sit quiet.

We all know what the Government of India did do. It set to work to increase the use of gold, and deliberately legislated against its standard of value; it applied drastic remedies to a currency which was in the soundest health, and has continued worrying itself and the country for five years.

The position, then, of India in 1893 was not a difficult one to understand. She was suffering, in common with all gold debtors, from an increase in the weight of her sterling debt; but, thanks chiefly to her admirable currency conditions, her general prosperity was such that she was able to meet, and rather more than meet, her growing expenditure. And she could moreover congratulate herself on being free from the strangling conditions of a contracting gold currency, a sinister influence which was affecting many industries in England; and, above all, she was enjoying, and seemed likely to enjoy for many years to come, the benefits of a currency

able to expand with ease and certainty to meet her growing commercial requirements.

From the starting-point of gold appreciation and silver stability, we have quickly reached the heart of the problem, and perceive the simple solution of it. Before the fatal 26th June, 1893, India, thanks chiefly to her admirable currency conditions, and in spite of the growing burden of her sterling debt, was enjoying a fair measure of prosperity. But in one part of the horizon a cloud lay, and the rulers of India were oppressed with a sense of coming disaster. This cloud had begun to form in 1873, and had been continually growing larger; it threw a shadow over gold-debtor nations, and shed a depressing influence over gold-using countries. But its nature remained for long unrecognized. Silver countries saw their currencies falling apparently in value, and attributed the phenomenon to the depreciation of silver caused by the increasing supplies of that metal. Gold-currency countries attributed the oppression to overproduction, strikes, and other imaginary causes. But the increased demand for gold, and the consequent contraction of the gold currency, was the one sinister influence affecting all alike. Yet so blind are the nations even now to the real cause of their troubles, that many of them, following the foolish example set by India, are joining in the scramble for gold, and are thereby intensifying the evils from which they suffer. If the problem were rightly understood, if India and the countries which have followed her example were to avoid the further use of gold, they would see the cloud which menaces the future melting away before the greatly increasing supply of gold which this decade is witnessing. The day, indeed, of the discovery of the Witwatersrandt gold-fields was the beginning of the end of the currency troubles which have been threatening the civilized world.

Is not a picture of the growth of the value of gold, which in gold countries strangled trade, and in gold-debtor countries threatened bankruptcy, a true presentment of the problem, and is not the problem and its solution simplicity itself?

So simple indeed is the problem, that some explanation of the action of the Indian Government is necessary. The explanation is not far to seek. Its action was based on two prominent fallacies:—

(1) That the rupee had fallen in value;
(2) That India was on the verge of bankruptcy;

and on two minor fallacies:—

(3) That the currency was redundant;
(4) That further taxation was impossible.

Starting from such premisses as these, the

legislation is to some extent explicable; for it tended to prevent the rupee falling further in value, tended to contract the currency, and provided indirect taxation. But had the premisses been sound, I cannot see that the remedies proposed were scientific. It would seem that, had the rupee really fallen in value, the Government could have most justly, and without any political fears, have increased taxation in certain directions; and at least it would have been more statesmanlike to sit quiet until the revenue had fallen below expenditure, until indeed some real difficulty had arisen for the Government to combat.

The trouble which India has had to bear has been the increase in the value of gold—the measure, that is, of her indebtedness; that difficulty is still present, but is no longer on the increase. The supply of gold has become so great, and is so plainly growing greater, that all fear of a further increase in the value of gold may be dismissed; indeed, if India were to repeal the legislation of 1893, and boldly declare her adherence to silver monometallism, and her determination not to employ gold as money, we should see a slow but steady fall of gold set in. According to Mr. Sauerbeck, it took £61 to buy in 1896 what it requires £64 to buy now, which shows that at least the rise in the value of gold has at present ceased.

There is one argument very generally advanced for the adoption of a gold standard, namely, that all nations are turning to gold, and that India must follow suit. Those who argue thus forget that India was the greatest silver monometallic country in the world, that it was she who lately set the example of turning to gold as a standard, and that the smaller silver powers blindly followed. Does anyone suppose that if the Government of India clearly understood that silver monometallism must lead to prosperity, while gold monometallism will only serve to increase the burden of the sterling debt, and proclaimed this truth, does anyone suppose that Japan and other countries would not learn of her, and would not gladly draw back from a policy which has already become a burden, and which might, as in the case of Chili, involve disaster?

Let those to whom no argument appeals, but who require the logic of stern facts to convince them, study the economical conditions of Chili, a would-be gold standard country, and of Mexico, a country firmly wedded to silver monometallism.

What, then, should India in the present crisis do? Let her repeal the legislation of 1893; let a free and elastic currency once more circulate through her arteries. Japan would be only too glad to follow her example, and repeal the

legislation which came into force in 1897.* Under these changed conditions silver would at once rise almost to its old level, or to about 35*d.* an ounce, and the rupee would fall to 1*s.* 1½*d.*† Under such conditions trade and commerce would so flourish, that the revenues would meet the additional rupee expenditure which would be required; and even if some further taxation were found necessary, surely some scheme could be devised less injurious to the country than one which strangles commerce, stifles trade, and tends to throw the country back into the barbarous condition where money is unknown and transactions are the subject of barter.

There is one argument for a gold standard for India which I must not omit to notice. It is urged that linking India's currency system with that of England would encourage the flow of capital to India. It would do so, but so would any fixed currency policy; and nothing could better promote the flow of capital than the conditions which would rule under a return to free silver monometallism. For were the legislation repealed the rupee would fall to a fixed level, and inasmuch as the repeal would deal a deadly blow at gold ascendency, and limit the possible demand for it, we should

* As a matter of fact, this legislation as a measure seriously affecting the position of silver is dead. The yen ceased to be legal tender on the 31st March, 1898, and ceased to be exchangeable for gold on the 31st July, 1898.

† *Vide* Appendix F.

certainly see the value of gold, under constantly increasing supplies, very gradually falling perhaps, but still falling in value, and this implies a rise in the price of the rupee. The conditions of a rising rupee would be the most favourable for the attraction of western capital.*

Under the silver depreciation theory the guides of India's financial policy hold that a return to open mints might mean a fall of the rupee to 9*d.* or lower, and in the end a practically unlimited fall.

Knowing as we do that the fall of the rupee in price was, up to 1893, due solely to the rise in the value of gold, and that, until legislation was directed against it, silver never fell notably in value, we may rightly conclude that a return to the currency conditions which ruled before 1893 would imply a return to silver stability, and that the level of the value of gold would again be practically the sole factor in the change of the price of the rupee. And since such a policy would imply the cessation in the prospective demand for gold, and since this policy would sooner or later be followed by all would-be gold standard countries, it would have a world-wide effect

* As long as gold was rising in value, investors naturally preferred to invest in gold standard concerns, where the fixed interest on their capital was continually increasing in value. But as soon as gold falls, investors would be rather attracted by rupee investments, which would steadily rise in price as gold fell in value.

in lowering the demand for gold, and gold would fall in value and the rupee rise in price; and year by year the revenues of India under a free and elastic currency policy would expand, and her expenditure as the gold burden grew less would diminish, and the country would enter upon an era of great prosperity.

Prosperity immediate and increasing would be the certain reward of the acceptance of the simple policy I, and those who think with me, advocate. What have the advocates of gold monometallism to offer? A great initial expenditure, an increase in the amount of the sterling debt, and an increase in the weight of the whole burden of debt due to the increased value of gold, which the demand by India for gold would lead to; several years of money scarcity,* dear capital, stringent markets, and currency conditions adverse to the increase of commercial enterprises and the general prosperity of the country, and all to secure a standard of value less stable than silver, and less suited to India's needs.

On the foregoing view of the present currency conditions, what course should India take, avoiding as far as possible sudden market disturbances? Her course is simple. Let the Secretary of State sell regularly a fixed amount of rupees in exchange for

* "It would naturally take some years to establish a gold currency."—LORD ROTHSCHILD, *Minutes of Evidence, Indian Currency Committee*, 1898, p. 286.

sovereigns, an amount not less than sixty lakhs of rupees a week, or more than sufficient to pay India's dues by the end of the financial year. Under the pressure of these sales the rupee would begin at once to fall in price, and would continue falling until it reached a level of about 1*s.* 2½*d.* On the rupee reaching this price, the Secretary of State might declare that one month from date the mints would be reopened and kept open to the free coinage of silver; silver would immediately rise, and the rupee would fall until an equilibrium was reached, which would be at about 35*d.* an ounce for silver, and 1*s.* 1½*d.* for the rupee. The disturbance to trade even in the silver market would not be great, and certainly no greater than that occasioned by the passing of the currency legislation of 1893.

Such must be the advice which anyone who puts India's prosperity as the first and foremost end in view would give. Let us never forget that India is a gold-debtor country, whose debt is measured in gold, and that the one aim and object of her legislation should be to prevent the increase in this measure of her indebtedness; and that, therefore, the proposals of the present Government which tend to the increased use of gold are diametrically opposed to India's true interests. Let us legislate on broad lines with a single eye to the country's good, and finance will take care

of itself. "Faites moi," said some French philosopher, "de bonne politique, et je vous ferai de bonne finance." Del Mar, in his "Money and Civilization," says that it is to the advantage of the gold possessors of the world to cause nations to adopt a gold standard, and he declares that the gold bugs thrive on the credulity and indifference of a world which is too busy in earning money to study the science of its history.*

Study the science of its history! Who amongst our currency legislators has done so? Who has even thoroughly studied the monetary history of the last quarter of a century? He who has intelligently watched nation after nation thronging to the gold market, and there scrambling for the metal; who has understood the sacrifices made to obtain gold, and the injurious contraction of the currency which this rush for gold has caused; he who has seen and understood the true inwardness of these things, could he, with a single eye to India's prosperity, urge India to adopt a gold standard? And he who has understood that the progress which India herself has made was due in great measure to the excellence of her currency system; who has grasped the stable monetary conditions which ruled in India; who has seen Chili gasping for breath as she toils after the gold-standard

* *Vide* Appendix E.

phantom, and Mexico expanding under the influence of a bountiful currency; could he counsel the overthrow of silver, and a change from these fruitful monetary conditions? Study the science of the history of the precious metals, study contemporary history, view with understanding the surrounding conditions, compare Mexico and Chili, and we shall learn the true import of a gold or silver standard of value.

I have not attempted to show, except indirectly, how weak the case for gold monometallism as a currency policy for India really is; it would be easy indeed to prove the difficulty, expense, and injury such a policy would entail. Much time has been spent, and the highest inventive faculties have been brought to bear, on devising plans for a gold standard for India. The Government of India, Mr. Lindsay, and Mr. Probyn, with much thought and labour, build their schemes, and Lord Rothschild and other high financial authorities upset them. A brief contemplation of the real difficulties which beset the country, and a recognition of the virtues of silver monometallism as a currency policy, would do more to solve the Indian currency problem than the most laboriously contrived and cunningly devised scheme of so-called currency reform which involves the overthrow of silver as a standard of value, and the election of gold to reign in its stead.

APPENDICES.

A.

THE APPRECIATION OF GOLD.

BUT for Lord Farrer holding so strongly the opinion that the appreciation of gold in late years has not yet been proved, I should scarcely have thought it necessary to dwell on this economical fact. Everyone must be acquainted with Mr. Sauerbeck's figures. The following are his index numbers for gold for every fifth year from 1868 to 1893, deduced from the prices of forty-five staple commodities. The average prices of 1867–77, represented by the number 100, are the standard of comparison.

1868	99
1873	111
1878	87
1883	82
1888	70
1893	68

And we see that £68 exchanged for the same quantity of the forty-five commodities in 1893 as £111 exchanged for in 1873.

To the six monometallist members of the Gold and Silver Commission are we chiefly indebted for the spread of certain false doctrines in regard to the currency problem.

Though I am no bimetallist, I must own that facts very generally testify in favour of bimetallism, and the bimetallist party was little concerned to distort this testimony in defence of its views. Not so the monometallist party: most facts witness against *gold* monometallism as a satisfactory currency policy; and, in attempting to minimise the strength of such testimony, the monometallists lent the weight of their authority to more than one false view. With one such I will here deal.

The chief charge against gold is its instability and its appreciation of late years. Instead of accepting this plainly proven charge, the monometallist party attempted to minimise the force of the proofs. Now the strength of the prosecution on this point lay in the evidence of index numbers. To anyone who should approach the subject with open mind, the evidence of index numbers as to the appreciation of gold is, I think, overwhelming. If, taking one commodity and comparing it with some forty-five others, we found that during a certain period forty-four of these commodities exchanged for less of our one commodity than before, we might surely safely conclude that our one commodity had during the period increased considerably in value. Now gold is our one commodity, and comparing it with forty-five others, Sauerbeck found that forty-four had to some extent lost their power of purchasing gold since 1873, and one only (coffee) had gained. Soetbeer compiled

Tables of 114 commodities with practically like results. Such evidence for the appreciation of gold is to my mind overwhelming. But the monometallists refused to accept it, and strove to minimise the force of the evidence. What was their line of argument? They said: We must enforce caution in the use of this method of generalisation; "index numbers take no account of the price of labour or services, or the rent of houses or land," nor have retail prices been taken into account. Thus the six practically argued that Soetbeer's 114 and Sauerbeck's 45 commodity measures were not sufficiently comprehensive to give a correct answer. Let us consider this.

Sauerbeck's measure comprises commodities to the value of £450,000,000. Each of these commodities has been subjected to the daily, almost hourly higgling of the market, and the answer each gives as to its own power of purchasing gold is practically exact. Soetbeer's index numbers are yet more comprehensive, and deal with commodities worth another £450,000,000 or more. Are we to accept these witnesses with caution because gold is the measure of many things not here comprised? Should we not rather accept this evidence (supported by many other similar Tables) as a sure foundation on which to build? No, the Commissioners would have us take into consideration the price of land, which can give no exact answer as to its price in different years; they would have us take the price of labour, an equally uncertain factor; they would have us take retail prices, which are notoriously variable according to locality; they would have us take the price of houses; and

having taken all these into consideration, we might then speak with some certainty as to the change in the value of gold.* For my part I would rather trust, as being nearer the truth, the collective replies of any fifteen, nay of any ten staple commodities, if carefully selected for their widely varying conditions, than the replies of a thousand times their value of land, labour, and retail trade.

Secondly, the six attempt more than once to argue that, if gold had appreciated, the fall in prices should be "universal and uniform," a monstrous argument which even they seem now and again to recognize as untenable.

Thirdly, they argue that many commodities have fallen in value owing to increased supply, cheaper transit, &c.; and that the fall in price is due to causes affecting the commodities themselves. It is true that many things in late years may be more cheaply produced and distributed, but in most cases the demand for such would increase and prevent a fall in value; seeing indeed that the population of the world is increasing rapidly, we should far more reasonably expect demand to outrun supply and prices increase.

And on such reasoning, the six Commissioners came to the conclusion that "the fall in the gold prices of commodities is in greater part due to causes affecting

* On these lines Mr. A., an Indian financial authority, wrote a letter to *The Pioneer*, proving by the prices of Land, Houses, Railways, British Consols, Foreign Securities, Labour not liable to income tax, Labour liable to income tax, Shipping, Mercantile commodities, Mines, and Manufactories, to the tune of seventeen thousand millions sterling, that gold had not appreciated more than 9·4 per cent.

commodities rather than to causes affecting gold," a conclusion which had dire consequences, for it led them to support the fallacy of the depreciation of silver by declaring that "as to the fall in the gold price of silver, we think that, though it may be due in part to appreciation of gold, it is mainly due to the depreciation of silver" (Final Report, para. 99), a declaration which stamped the depreciation of silver as the orthodox faith, and its stability as a heresy.

B.

THE STABILITY OF SILVER.

I need hardly point out that, if gold has been proved to have risen in 1893 some 47 per cent. in value above the average level of 1867–77, and if silver in the same period fell, as it did, about 32 per cent. in price, the stability of the value of silver is thereby proved.* Inasmuch, however, as the truth or otherwise of the stability of silver between 1873 and 1893 is of great importance, is indeed, as H. C. C. in *The Statist* truly said, "the crux of the situation," I advance the following separate proofs of the matter.

In the year 1894 I was considering this question, and I chanced upon some Tables of silver prices in China drawn up by Consul Jamieson, of Shanghai, and furnished to the Foreign Office in a report, "Miscellaneous Series," No. 305. From these

* The actual figures are instructive. Gold prices fell from an average of 100 in 1867–77 to 68 in 1892, a fall of 32 per cent. The price of silver fell from 58*d.* in 1867–77 to 39¾*d.* in 1892, a fall of 31½ per cent. The price of silver, therefore, fell almost exactly with the average price of commodities; in other words, silver remained perfectly stable in value up to 1892: and yet in that year the Government of India began to vehemently agitate for the overthrow of this most perfect standard of value. This note, if it contains a correct statement of the facts, alone condemns the currency legislation of 1893 as a most unfortunate blunder.

Tables I drew up and published silver index numbers of the prices of forty-three commodities for the years 1882–92 inclusive; the average prices of the years 1870–74 were my standard of comparison, and these prices I represented by the figure 100. The result was as follows:—

1870–74 . .	100	1887 . .	95·5
1882 . .	96·1	1888 . .	97·2
1883 . .	99·4	1889 . .	96·8
1884 . .	92·4	1890 . .	100·4
1885 . .	92	1891 . .	94·5
1886 . .	100·1	1892 . .	96·9

These figures give an average index number of 96·5, or a value for silver for the period in question of 3·5 above the level of 1870–74.

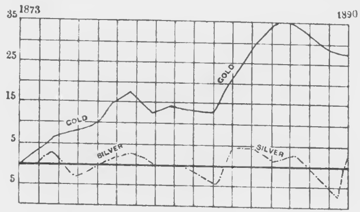
In the year 1896 Mr. Atkinson, of the Finance Department of India, who has drawn up many useful Tables of prices, furnished the following figures to *The Pioneer*. They are the export prices in India of certain commodities, and they are compared with the prices of the same commodities in 1871.

1871 . .	100	1887 . .	92·7
1881–82 . .	98·9	1888 . .	95·9
1883 . .	92·7	1889 . .	99·6
1884 . .	94·5	1890 . .	103·9
1885 . .	94·6	1891 . .	98·2
1886 . .	92·9	1892 . .	100·4

These figures give an average index number of 96·8, or a value for silver for the period in question of 3·2 above the level of 1871.

The second corroboration of the general correctness of the figures I obtained from prices in China is to be found in the third edition of Sir G. Molesworth's prize essay, *Silver and Gold*, in which the following diagram based on Soetbeer's Tables occurs.

Here we have gold and silver measured by a multiple, that is, an ideal standard; 114 commodities form this measure, and their average level is shown by the thick horizontal line. The figures on the left



of the diagram show the rise per cent. of the metals, or their fall, according as the figure is above or below the commodity line. Arrays of figures may fail to carry conviction, but no one who has once glanced at the gold line climbing aloft, while the silver line clings round this ideal level of value, can fail to be impressed by the fact of the appreciation of gold and the stability of silver during the period dealt with.

We have then incontrovertible proof of the appreciation of gold, a proof which involves the stability of silver as its corollary. We have equally

certain proof of the stability of silver, a proof which involves the appreciation of gold as its corollary. I trust Lord Farrer, for one, will no longer declare these facts to be still the subjects of active controversy, and will no longer need to write: "How, in the face of the recent production of gold, anyone can still maintain this theory (the appreciation of gold) passes my comprehension."* Those who can still declare that it was silver which had moved and that gold was stable might be likened to the opponents of Galileo, when they held to their opinion that the earth was stable and that the sun moved round it.

With reference to the above quotation, I will briefly show how very comprehensible the maintenance of the theory is.

What led to the rise in the value of gold? Demand. In 1873 there existed a stock of gold in the world computed at £900,000,000. On this stock of gold Germany drew to about ten per cent. of the amount; other countries followed suit, and the total drawings reached some forty per cent. of the stock in existence, with the very natural result that gold rose greatly in value.

And supply for many years did nothing to prevent the increase in the value of gold which demand had caused. In 1852 the supply of gold reached a total of about £35,000,000, for 1851–70 the average annual value was about £25,000,000. From 1871 to 1883 supply kept decreasing, being about £19,000,000 in the latter year. It was only four years ago, in 1894, that supply reached the highest

* Vide *The Statist*, 13th August, 1898.

level of the former years of plenty. In the last three years the average increase of gold above the average level of the previous forty years has been about £15,000,000, or an annual increase of one per cent., as compared with the total stock in existence. It seems to me that a child might be able to understand why gold increased up to 1893 some forty-seven per cent. in value, and why supply has, as yet, not induced a greater fall in value than at most some five per cent.

> Demand increased forty per cent. Value increased greatly.
>
> Supply increased one per cent. annually for three years. Value decreased slightly.

Or, in other words, currency conditions have led to a greatly increased value for gold, and as yet to a very trifling decrease in value. Mr. Sauerbeck's index number for 1896 was 61, and for August, 1898, 64.

That supply is great and increasing, and that the torrent of supply already equals in strength the current of demand, and that the level of gold has at length begun to ebb, is, however, a factor of overwhelming importance in this question.

C.

The prominent factors which led to the currency legislation of 1893 were:—

(1) The silver depreciation fallacy.
(2) The attractive mint fallacy.
(3) The redundant currency fallacy.
(4) The on-the-verge-of-bankruptcy fallacy.
(5) The needless dread of the repeal of the Sherman Act.

And, lastly, some fallacies advanced by the Herschell Commission in regard to the currencies of certain European countries. The deductions drawn from the Austro-Hungarian currency system entirely led the Commission astray.

With number one I have dealt; I propose now to deal with the remainder.

WHAT IS A MINT?

A mint is an assaying and weighing office—nothing more and nothing less. Where gold or silver is the medium of exchange, it is highly convenient to be able to tell at a glance the quality of the metal offered and its weight. The Indian Government, when the mints were open, undertook at a small charge to assay and weigh all silver brought to it, and return it correctly assayed and weighed. With open mints a tola of silver, in the form of a rupee,

differs in purchasing power in no appreciable degree from a tola of silver in any other form; a rupee is more readily acceptable in exchange because it has been assayed by Government; but the power of purchase of a bar of silver, say, 1000 tolas in weight, if the fineness be certified, is practically the same as that of 1000 rupees. This is a truism; but it behoves us to keep the truth it embodies constantly before our minds, for it is one which is readily forgotten; I will later make use of this truth to expose another widespread fallacy.

> And in the belief that the Mint *takes* the silver, whereas it only weighs it.

How does the fallacy that the open Indian mints attract silver originate? It originates in the false premiss that *it is possible to supply a commodity where there is no demand.* The reasoning based on such a premiss is on this wise.

> An increase of rupees may increase reserves, but cannot increase the circulation of rupees beyond the exchange needs of the country. *Vide infra.*

America, let us say, possesses at her mines, or in her vaults, great stores of silver which are useless to her. She therefore takes advantage of the Indian mints to pour her silver into them; the mints turn this stream of silver into rupees, which issue forth and flood the country, and the currency is depreciated. In this falsely conceived picture two fallacies lie; one that America pours her silver into the mints, the other that an increase of rupees must decrease their value. Let me attempt to picture the facts correctly.

In the first place there must be a demand. We find a great demand for silver exists in India, where, in spite of the statement of Lord Herschell's

Commission to the contrary,* its inhabitants hoard much wealth in the form of silver ornaments. The demand is met by countries in possession of silver, which, in their turn, require goods which India can supply. In return for such goods, a country like America ships silver to India, consigned, not to the Master of the Mint, but to an exchange bank; and as soon as this silver is received, the transaction, as far as America is concerned, is closed—she has sent bars of silver, and India in exchange has sent bales of jute. What happens next to the consignment depends on the ultimate destination of the silver. In the comparatively rare case of a buyer appearing on behalf of the mint of a native state, the silver would be sold "as per invoice"; but far the larger portion of the silver is sent to the mint, where it is assayed and weighed by Government, receiving, in the process, the Government guarantee. With this guarantee it is readily bought by the native dealers, whose customers prefer to have the silver they are buying for ornaments in the form of rupees, rather than in bars, the fineness of which they have no certificate for. As a matter of fact, the merchant in Bombay is seldom willing to give as high a price for silver as the mint gives, because his customers prefer to have silver with the Government guarantee.

Remembering that, as far as America is concerned, the transaction is closed as soon as her bars of silver are safely lodged in the exchange bank, and that the mint is for America non-existent; and remembering that it is silver that the native purchaser requires, and

* "Such a use of ornaments is, however, said to be rare." —Para. 106, Herschell Commission of 1893.

not rupees, and that he prefers rupees, because only in this form does his silver come to him with a Government warranty, it is manifestly false to say that the Indian mints attract silver.

Although the mints are closed, I know that the ryot will buy silver, turn it into ornaments, and hang them round the members of his family as heretofore, and will continue the banking system which has been in force for a thousand years.

I have stated above that the ordinary picture of American silver turning into rupees contains two false presentments; let me now attack the second, which is that rupees over and above currency requirements can be forced into circulation, thus depreciating the currency.

A rupee owes its value to the fact that it is a definite portion of the silver in existence, and it cannot therefore differ in value, except for seignorage,* from a similar tola of silver in any other form. A rupee can never, therefore, fall notably below its value as silver; if it did, the owner would export it to wherever its value as silver had been maintained. Thus there can be no increase of the metal beyond the currency, hoarding, or manufacturing needs of a country. In India there can be no increase of rupees beyond these needs, and nothing can lower the value of the rupee save only that which would lower the value of silver equally throughout the world, namely, increased supply of, or decreased demand for, silver. The prevalent notion that silver-countries can pour their "refuse" silver into the open mints of India *ad infinitum* is utter foolishness.

* The seignorage charge for minting in India was two per cent.

India will never buy more than she wants of silver or anything else, and countries will never give India silver for nothing. This false notion led in great measure to the currency legislation of 1893.

I am of course arguing in reference to a country with external trade relations. A redundant full value currency can, it is plain, exist in the rare condition of a place or country where export of coin is forbidden or impossible. Omdurman under the Khalifa Abdullah was, for a time, a case in point.

May we not dismiss as wholly unsound the general argument that the mints were attracting silver, were flooding the country with rupees, and thus depreciating the currency? Neither the premisses nor the conclusion have a grain of truth in them.

A REDUNDANT CURRENCY.

To speak of the redundancy of the rupee is to use an expression without meaning. With open mints, the rupee coinage was (to precisely the same extent as the English gold coinage) a full value currency circulating at the level of the value of silver in the intertrading world; it was, therefore, self-adjusting, and nothing could cause it to become permanently redundant, or the rupee to fall notably in value below that of a similar tola elsewhere. That rupees were never exported is an absolute proof that the currency was never redundant.

In this connection—for the point is important—I will make a quotation from a work to which I never turn in vain for safe guidance, a quotation which strikes at the root of the attractive mint

theory, every word of which I would beg redundant currency adherents to carefully consider:—

"Moreover a constant inflow (of bullion) can only endure in so far as the convenience of trade needs more bullion as money, or the needs of society require more for other purposes than money. These needs include the small constant inflow, which may be due to the constant increase of the quantity of available gold (or silver) in the world. A constant inflow of bullion beyond these needs must so lower its value in the given country as to ensure its export to countries where it would be of more value, so counteracting the inflow."*

The circulation of a full value currency in a country with external trade relations cannot increase beyond the exchange needs of the country, and such currency can only fall permanently in value in conjunction with a general decline in the value of the commodity throughout the intertrading world. If the currency agitators of 1893 had been economists they would have known this, and would not have made the mistake of supposing that the currency had become redundant and had depreciated.

ON THE VERGE OF BANKRUPTCY.

I need but point out that the year 1892, when the Government became frantic for legislative action, and when it declared that a further fall of the rupee would lead to bankruptcy, was the fourth of a series of years of uninterrupted surpluses.†

* *Grammar of Political Economy*, by W. F. MARRIOTT, p. 167.

† From 1882 to 1892 there were eight years of surpluses, and three of deficits. The net surplus reached a sum of about £5,000,000. (p. 57 *Min. of Evidence Indian Cur. Committee*, Pt. 1.)

THE REPEAL OF THE SHERMAN ACT.

It was the imminent repeal of the Sherman Act which confessedly hurried the Government into legislative action. Yet the Act itself had been, except for a brief and speculative period, inoperative; why should its repeal have been so dreaded? I have already pointed out the uselessness and feebleness of a measure which increased the annual demand for silver to an amount less than one-hundredth of the stock of silver in existence. How could such a measure raise to any extent the value of silver? How still more could it make silver keep pace with the then rapidly increasing value of gold? And how could it nail silver to a fixed gold price as its authors intended it should?

THE HERSCHELL COMMISSION AND THE AUSTRO-HUNGARIAN CURRENCY SYSTEM.

Like many others, I should have probably accepted without further consideration the conclusions arrived at by this body of scientific men, although those conclusions seemed opposed to the teachings I had hitherto accepted as sound, save for one reason, a reason which induced Mr. Leonard Courtney, in signing the report, to write a separate minute, which, in the light of our fuller knowledge on the subject, condemns as unsound the conclusions of the Committee. Mr. Courtney wrote:—"It seems to me that our judgment of what the home Government should do in reference to the proposals of the Government of India must depend upon the view

we take of the cause of the divergence in value that has arisen between gold and silver. . . . Has gold become more valuable in itself, or silver less valuable in itself; or, if both movements have happened, which has been relatively greater? If gold has become more valuable, the burdens of India have become greater than was contemplated or intended, and we must ask ourselves whether they can be in any degree reduced. If silver has become less valuable, the taxation of India is made lighter, and we may freely examine the means, direct or indirect, of raising it. . . . In our report we have not examined this preliminary question, but I hold it the first to be determined. For reasons upon which I do not now enter, I have come to the conclusion that the divergence between gold and silver has been to a large extent due to an appreciation of gold; and this opinion necessarily affects my judgment of the policy of the Indian Government, which is to adopt a gold standard instead of one of silver. This is to accept as unalterable, if not to intensify, the aggravated burden thrown upon India." These words are wise, but one could wish that Mr. Courtney had refused to sign a report in which the Commissioners had avoided the preliminary question, and had attempted to build without testing the foundations.

It is remarkable that, as far back as 1876, when the Bengal Chamber of Commerce proposed to the Government of India to prohibit the free coinage of silver, the Government, in reply, showed a far clearer insight into the situation than that shown either by the Government of 1893 or by the

members of Lord Herschell's Commission, Mr. Courtney perhaps excepted. This reply is to be found embodied in a Parliamentary return dated 2nd August, 1893, and from it we learn, in paragraph 19 of the Government resolution, that "from a series of Tables of prices in London and India gold has risen in value since March, 1873, and especially since last December," and "these conclusions appear to indicate a rise in the value of gold as at least one of the causes that has disturbed the equilibrium of the two metals." The Government of 1876 having carefully considered their premisses, and having found that the divergence was due probably to a rise of gold, wisely refused to disturb their silver currency.

Is it credible that a great Government, is it credible that a number of currency experts, should have launched a revolution in the realms of currency without first making some effort to discover the real positions held by gold and silver in their respective kingdoms? Were, indeed, the opinions of a less eminent body of scientific men at stake, it would suffice, as a condemnation of its conclusions, to point out that the report was based on the fallacy that the divergence between gold and silver was chiefly due to a fall in silver. Unsound as the foundations of the report are, no less unsound are some of the arguments which carry the report to its conclusion.

The Commissioners reviewed the currency systems of many countries; and in the systems of Holland and Java, France and Austria-Hungary, they seemed to themselves to have found reasons in favour of

the course they had met to recommend. The Holland and Java argument I can dismiss in a few words. In paragraph 88 the report says:—"*There is no mint, and little or no stock of gold in Java, and at the same time the rate of exchange between Java and Europe is always at or about par.*"

It is somewhat singular that the Commission kept in the background the fact that Java silver coins are unlimited legal tender in Holland, and that Holland and Java have, therefore, practically one currency; and that, until the rupee is current in England, it is absurd to quote the system as bearing on the question at all. This is a negative argument, and has no force either way; but the currency system of France is a positive argument against the views of the Commission.

The French Currency System, para. 82:—"*The peculiarity of the French currency is the large amount of five-franc pieces which circulate at the old ratio of $15\frac{1}{2}$ to 1. They are legal tender to any amount, and are accepted as freely as the gold coin. . . . There is no difficulty in maintaining either the silver or the notes at their gold value.*"

"There is no difficulty." If a capital expenditure of £22,000,000 sterling, and an annual cost of at least £1,000,000 sterling represents no difficulty, then the Commissioners' argument may pass. These are the facts. The Government and the Bank of France undertook, in their own interests, to keep all the silver in their five-franc pieces at a ratio of $15\frac{1}{2}$ to 1 of gold. It occurs at once to ask how they managed to secure so desirable an end. In the first place, the

Bank took out of circulation and stored in its vaults silver worth at the above ratio £51,000,000. For this the Bank paid, or issued paper promises to pay, £51,000,000; it is now worth less than £30,000,000. Here we have a potential loss of about £22,000,000 sterling.

In the second place, France holds in the Bank £77,000,000 in gold. £47,000,000 of this, let us allow, is held for ordinary business, as against about £35,000,000 by the Bank of England and about £40,000,000 by the Bank of Germany. The remaining £30,000,000 is kept in reserve to aid in maintaining the silver currency at its unnatural level. How far, then, do we find the words "there is no difficulty" borne out by the facts? First, an initial capital cost of £22,000,000. Secondly, an annual cost of, say, £1,000,000, being interest on the £30,000,000 of gold locked away out of circulation. Do the real facts, then, help us in our difficulties? All that France can teach India in this matter is that, if India will undertake the huge initial expense of adopting a gold currency, she will be able to maintain her silver at any ratio with her gold, provided she is prepared to pay one, two, or more millions a year for the luxury.

The Austria-Hungary Currency System.—In para. 90 we read:—"*The whole oscillation (in exchange) between 1879, when the mints were closed, down to 1891, when the resolution to adopt a gold standard was taken, was less than 9 per cent.*" The argument is plain enough. The Commissioners argue that the Government of Austria-Hungary, by closing the mints, kept exchange at a fairly constant level, and

prevented it varying with the ever-varying price of silver, and the conclusion is that India can do the same. After this, it is difficult to believe that the level of exchange in Austria-Hungary had nothing in the world to do with the price of silver. I should despair of obtaining assent to this statement, had not the Commissioners themselves provided figures completely stultifying their own argument.

Austria-Hungary was a country with an inconvertible paper currency. I refuse to believe that the Commissioners were ignorant of the obvious economic doctrine that in a country with an inconvertible paper currency exchange fluctuates solely in sympathy with the credit of the Government,* and that the oscillation of less than 9 per cent. testifies to the generally good credit of the Government and to the peacefulness of the times, but has nothing in the world to do with the market price of silver, or with the fact of the mints being open or closed. The position of the Commissioners on this point is the more extraordinary, inasmuch as they have themselves published figures in this very paragraph, which completely prove that exchange when the mints were open never, even by chance, followed the market price of silver. Let us consider these figures.

In 1861, just after the Italian war, when the Government credit was low, we find that nearly 142 florins in Vienna were required to purchase £10 in

* The reason is obvious. An inconvertible paper currency is of no value in itself, and its notes are but promises to pay on the part of the Government. When the credit of Government is low the value of its promises is at a discount; when its credit is good the promises are good, and exchange rules high.

London; at this date the price of silver was about 61*d.* per ounce. In 1865 silver had fallen a trifle, but the Government credit had so much improved, that exchange rose to 109, and but 109 florins were now required to purchase £10. In 1868 the level of silver had scarcely varied, but the Austro-Prussian war was just over, Government credit had fallen, and exchange fell to 126 florins for £10. Finally, in 1878, when silver had fallen in price from about 60*d.* to 52½*d.*, exchange had risen to 118 florins for £10.

From the figures published by the Commissioners themselves, and which, therefore, they had presumably studied, we see that exchange between Vienna and London never followed the fluctuations in the market price of silver. Yet the Commissioners have the hardihood to write in para. 91 (the italics are mine):—"This is a very remarkable case. The fall in exchange which *would have accompanied or followed the fall in the market value of silver* has been averted by closing the mints against free coinage of silver." It seems almost an insult to the reader's common sense to publish figures which prove that from 1861 to 1878, *when the mints were open*, exchange *never* followed the market price of silver, and at the same time to declare that it was by closing the mints in 1879 that exchange was prevented following the market price of silver. One can but marvel how this paragraph came to be written. The dullest intellect could not misunderstand the significance of these figures, which so plainly teach that the fluctuations in exchange while the mints were open never did accompany the fluctuations in the market price

of silver, and that closing the mints could have no possible effect on exchange.

It seems to me to be at least possible that, but for this amazing misconception of the currency conditions of Austria-Hungary, the proposal to close the mints *would have never received the assent of Lord Herschell's Commission.*

In dealing with certain objections to the proposals of the Government of India, the Commissioners made two startling statements. I will touch on one of them, for the opinion the Commissioners held as to the use of silver ornaments in India was an important factor in their decision.

The other statement is to be found in para. 115, and contains a quite novel economic doctrine, viz., that price depends on ability to pay.

It was very rightly urged by some that the closing of the mints, as far as it must depreciate silver bullion, would affect injuriously the value of silver hoarded by India in the form of ornaments. The Commissioners allowed the objection, but closed the discussion in para. 106 with these words (the italics are mine):—"It cannot, we think, be doubted that the closing of the mints would, in this case, depreciate the silver ornaments and the uncoined silver hoarded by the people of India. *Such a use of ornaments is, however, said to be rare.*"

Sir Lepel Griffin, in January, 1897, pointing out an unnoticed famine complication, calculates from Mr. L. Probyn's figures that these "rare" ornaments before the mints were closed were worth £350,000,000, and are now worth but £256,000,000.

The report shows clearly enough that Lord Herschell and the members of his Committee, who individually appeared to view with distrust the measures India proposed to take, were led by the

lessons they learnt from France and Austria-Hungary to assent to the proposals of the Indian Government. For France, it seemed, taught that a larger silver currency could be maintained at a ratio with gold far higher than the current market ratio, without difficulty; and Austria-Hungary as surely taught that to close the mints to free coinage would avert the fall in exchange, and would keep the rupee at an almost unvarying level. If they misread their lessons—and I maintain that, at least as far as the Austro-Hungarian lesson is concerned, no shadow of doubt can exist on this point—then we must hold that the currency legislation of 1893 was founded on a fallacy—the fall in silver—and was built up on a series of economic misconceptions.

D.

To one more economical confusion I would draw attention; it occurs with exasperating frequency in the evidence before the Indian Currency Committee.

The confusion is this: that the natural fall in the gold price of a tola of silver (coined or uncoined), which took place equally all over the world after 1873, is of precisely the same nature as the present artificial rise of the coined tola (the rupee) above the level of any other tola of silver in the world. This confusion of ideas prevents the right apprehension of the following very serious issue involved in the currency legislation of 1893.

The foremost objection to this legislative measure lies in the fact that the artificially appreciated rupee constitutes a heavy tax on producers in India, and acts as a bounty in favour of countries competing with India in her industries. The tea-planter, for instance, complains that he is heavily taxed by the unnaturally high price of the rupee. The complaint is most just; yet it is thought to be a sufficient reply to say that although it is true that the planter only gets fifteen rupees for his pound sterling now, yet he is better off than when, some years earlier, he got but twelve or even less rupees for his pound sterling.

"Q. 957: So that if there is any advantage in the fall of exchange, even though the planter only gets

1*s.* 4*d.* at the present day, he still gets a greater advantage as compared with what he got before?—Quite so." (*Min. of Evidence Ind. Cur. Com.*, Pt. I.)

The confusion of thought in this question and answer is surely manifest. Neither the planter nor anyone else could or would complain of a rise in the price of the rupee to two shillings, or to any other level, so long as the rise was due to natural causes, *and so long as the price of silver throughout the world shared in the rise.* But the planter does complain of the forced rise in the price of his currency above the general level of silver, a rise that has been engineered by the Government of India in fear lest the rupee at its natural level should lead to bankruptcy. More than one witness before the Currency Committee has stigmatised this action of the Government as arbitrary and despotic; the action deserves these epithets. But the Government of India is not a tyranny; it is a Government which ever puts the welfare of its subjects in the first and foremost place, and all its legislation is designed to secure the good of the greatest number; and it is little short of a calamity that the confusion I have here dealt with tends to hide from the eyes of the Government the truly tyrannical nature of its currency legislation; for if the Government of India clearly understood how heavily the legislation has begun to press on India's many industries, it would be the first to counsel a repeal of the Currency Act of 1893.

E.

THE imminent fall in the value of gold is a point of the first importance. I do not doubt that the great gold creditors of the world foresee and fear this fall, and would hail any legislation tending to increase the demand for gold. On page 250 of the Committee's Minutes of Evidence a witness says:—"You would do a service to Europe (the gold creditors of Europe?) if you were to gradually utilize this extraordinary surplus of gold." Yes, but you would be doing a very bad service to India and to every gold debtor nation or individual. This is, to my mind, a most important piece of evidence. It seems to point unmistakably to the road which India should take. India must legislate with a single eye to her own interests; she cannot pause to consider whether her action would or would not benefit the gold creditors of Europe, who are likely to suffer to some extent by the impending fall in the value of gold.

F.

To what level would the rupee fall if the mints were reopened? This question is of great importance to the Indian Government, but I have not as yet seen any satisfactory answer to it. Vague suppositions that the rupee would sink to 9*d.*, or even lower, float about; but these are but the offspring of the parent error, the depreciation of silver. From the point of view of the appreciation of gold and the stability of silver let us examine the question.

The price of the rupee, when the mints are open, depends on two factors—the value of gold and the value of silver. The value of gold we can, with the help of index numbers, determine with some exactness. It stands about 4 per cent. higher than in May, 1893, just before the mints were closed. The value of silver is not so easily determined, but it depends in the long run, like every other commodity, on cost of production, supply, and demand. The cost of production, in spite of some advance in the treatment of refractory ores, is practically unchanged, and the supply of silver has scarcely altered. The conditions of demand have changed, but it is the Indian legislation alone which has caused this factor to vary to any extent. Let India repeal her legislation, and the conditions which made for the value of silver in May, 1893, would be

practically restored. If, then, the mints were re-opened, silver, owing to the higher value of gold, would be some 4 per cent. lower in price, and would probably stand at about 36*d.* I do not think that, with silver again circulating freely as currency in India, it could rise to less than 35*d.* an ounce, and this means a price for the rupee of 1*s.* $1\frac{7}{16}$*d.*

I would ask those who hold that, on the mints being opened, the rupee might fall to 10*d.* or lower, whether this fall is to come about owing to (1) a rise in the value of gold, or to (2) a fall in the value of silver. If to (1), I would ask how mints open to silver can increase the value of gold; if to (2), I would ask how mints open to silver — increased facilities for the flow of silver—can lower the value of silver. It is clear, of course, that open mints would lead to a rise in the value of silver; and to me it is almost self-evident that the rise would reach a level approximating to that held by silver in May, 1893, before the mints were closed; and it is unquestionable that, with mints open to the free coinage of silver, the price of silver and of the rupee would year by year steadily rise as gold, under the pressure of "this extraordinary surplus of gold," gradually falls in value.

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